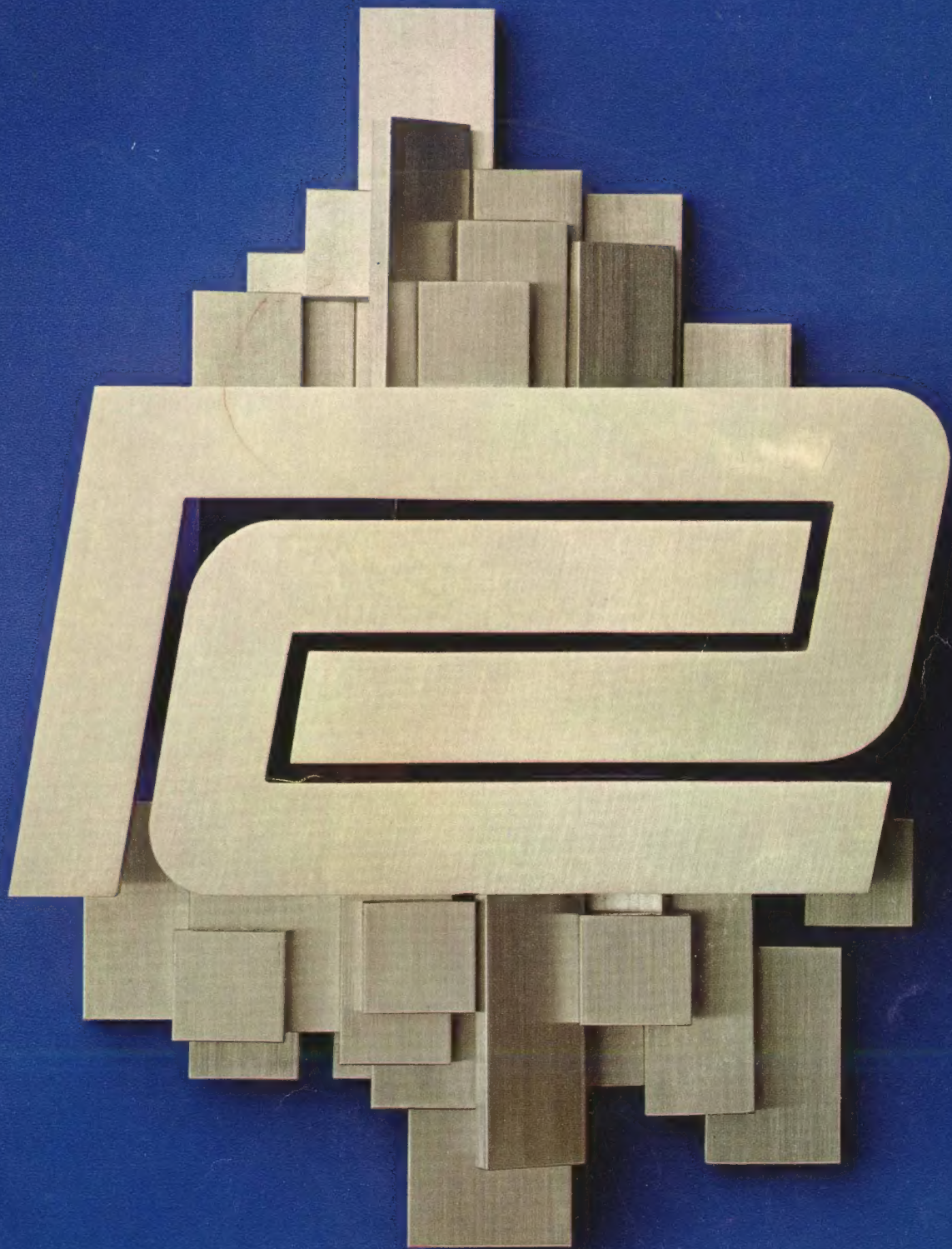


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PENN CENTRAL COMPANY / ANNUAL REPORT 1968



The Cover Sculpture symbolizes Penn Central as a strong and dynamic company, supported by the many different elements that comprise its diverse interests. The center gatefold and photographs throughout the Report depict various aspects of our railroad service to major customers and activities of our non-railroad subsidiaries. Sculpture and photography by Seymour Mednick.

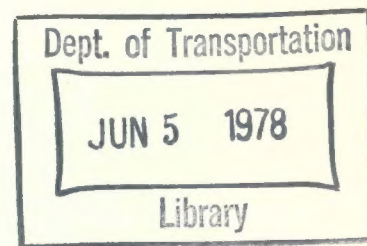
A Supplement is available containing additional statistics and financial data. If you wish a copy, please address your request to the Secretary, Penn Central Company, Six Penn Center Plaza, Philadelphia, Pa. 19104.

The Annual Meeting of Stockholders will be held in the Philadelphia Civic Center, Civic Center Boulevard at 34th Street, Philadelphia, Pa., at 2 p.m., Tuesday, May 13, 1969.

Stock Transfer Offices—1808 Transportation Center, Six Penn Center Plaza, Philadelphia, Pa. 19104; Room 1010, 466 Lexington Avenue, New York, N.Y. 10017; The First National Bank of Boston, 45 Milk Street, Boston, Mass. 02109; Continental Illinois National Bank & Trust Company of Chicago, 231 South LaSalle Street, Chicago, Ill. 60604.

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Penn Central Company, 122nd Annual Report, 1968.



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Stuart T. Saunders

Alfred E. Perlman

Letter to the Stockholders

Penn Central's 1968 consolidated earnings of \$90.3 million, or \$3.91 per share, underscore the importance of our diversification program. This 27 per cent increase over ordinary net income for 1967 was produced by our investments in pipelines, hotels, industrial parks, air rights developments and other non-railroad enterprises.

Our real estate subsidiaries—Great Southwest in Texas and Georgia, Macco in California, and Arvida in Florida—together with Buckeye Pipe Line Company, more than doubled their contribution to net income in 1968. It totalled \$44.2 million, an increase of 101 per cent over the \$21.9 million for 1967.

This strong performance offset a loss of \$2.8 million for our parent railroad company. Wages, fringe benefits, and cost of supplies continued to rise and were only partially absorbed by freight rate increases in June and November. Strikes and threats of strikes in basic industries, such as steel, coal and automobile manufacturing, had a detrimental effect on our freight revenues.

Nevertheless, 1968 was productive and encouraging in progress towards consummating our merger, which became effective on February 1, 1968. We finished the year ahead of our schedule for transforming two formerly competitive railroads into a single entity compatible in philosophy, practices and objectives.

We have encountered a number of operating problems in combining road operations and consolidating facilities. Some of these problems are still to be resolved, but we are certain that we have turned the corner and that the worst is behind us. Each step in the carefully planned unification of our railroad system will have cumulative benefits both to our company and to our customers.

We were burdened with approximately \$75 million in merger start-up costs and losses, many of which are non-recurring. This amounts to about \$3.25 per share. Taking these unusual expenses into account, our railroad results for 1968 were better than those for 1967.

In 1968, we paid out approximately \$35 million for personnel costs connected with the merger, in the form of severance pay, relocation of employees, overtime payments and protective allowances. We completed our new \$29 million freight classification yard at Selkirk, near Albany, New York, and our \$14 million coal pier at Ashtabula, Ohio. Altogether in 1968, we invested \$334 million for railroad equipment and facilities.

Freight sales and marketing activities were reorganized to provide shippers with more efficient service. Integration of our computer and electronic data processing network is nearly complete. The system is now reporting information much more accurately and promptly for transportation performance, customer billing, car tracing and other functions vital to first-class freight service.

Inclusion of the New Haven Railroad on December 31 added about 1500 miles of line to our rail network. We have a definite program for rejuvenating the New Haven and making it a viable and productive part of our system. We have already begun to restructure service and to build upon the sound base of public support which

is vital to the Company's long-range plans.

We are determined to reduce our passenger deficit to manageable proportions. On a fully allocated basis, this deficit exceeded \$100 million in 1968, but it would have been some \$40 million greater if we had not initiated a vigorous campaign to cut these losses.

Our policy with regard to passenger service is to improve essential service but to phase out unneeded and unused trains as rapidly as possible. Wherever we are required by regulatory agencies to operate trains as a public service, we are seeking Federal, state and local assistance in meeting these costs.

The railroad industry is advocating legislation to provide Federal funds to the railroads for the purchase of new passenger equipment and to underwrite losses on passenger service which the Government requires the railroads to operate. Such a program would help to place the nation's railroads on a more equitable footing with other modes of transportation which have long benefitted from governmental aid.

Penn Central is pioneering a tremendous breakthrough in railroad passenger service with the successful inauguration of high-speed Metroliner service between New York and Washington. The first of these new trains began operation in January, 1969. They are exceptionally well patronized, and are attracting new business. We expect to get the entire 50-car fleet into service this summer.

We hope that this Annual Report will help our stockholders to understand more thoroughly the diversified nature of the new Penn Central. Our company has grown from traditional railroad operations, which utilize about half of our total assets, into a broadly based organization with greatly increased earning power.

Penn Central has two clearly defined ways in which it can accomplish sound and steady growth—one as a transportation system and the other as a diversified corporation strengthened by many types of investments.

We are committed wholeheartedly to our responsibilities as a common carrier. Our railroad system is one of our most valuable

assets and offers enormous potential for growth and profitability.

During 1969 we plan with your concurrence to establish a holding company. Details of this proposal are described fully in proxy material. This corporate structure will facilitate future acquisitions through securities of the holding company. The railroad will become a subsidiary of the new parent holding company.

From the standpoint of management, we will be able to measure more effectively the performance of each enterprise and to define administrative responsibilities more clearly.

This move is consistent with modern business practice and will more accurately reflect the broader scope of Penn Central. It will give us greater flexibility to develop our transportation system and to pursue our diversification program.

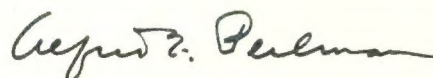
The outlook for 1969 is brighter than it was for the past year, especially with regard to our railroad system. We expect to have smoother and more efficient operations from the experience we have gained and the physical improvements we have made. We are projecting a gain of at least \$65 million in gross revenues from the higher level of freight rates, and we anticipate a substantial increase in traffic volume.

We have complete faith in the wisdom of our merger and in our ability to achieve, much quicker than originally anticipated, the projected merger economies and efficiencies. We are certain that we also can provide even better transportation service than was envisioned when our merger was initiated.

Sincerely,



Stuart T. Saunders,
Chairman of the Board



Alfred E. Perlman,
President

March 17, 1969

DIRECTORS

Stuart T. Saunders

Chairman of the Board, Penn Central Company, Philadelphia, Pa.

Alfred E. Perlman

President, Penn Central Company, New York, N.Y.

William L. Day

Chairman of the Board, The First Pennsylvania Banking and Trust Co., Philadelphia, Pa.

John T. Dorrance, Jr.

Chairman of the Board, Campbell Soup Co., Camden, N.J.

Otto N. Frenzel

Chairman of the Board, Merchants National Bank and Trust Co., Indianapolis, Ind.

R. Walter Graham, Jr., M.D.

Management of Personal Investments, Baltimore, Md.

Isaac B. Grainger

Member of Advisory Committee to the Board of Directors and Retired President of Chemical Bank New York Trust Company, New York, N.Y.

Edward J. Hanley

Chairman of the Board, Allegheny Ludlum Steel Corp., Pittsburgh, Pa.

Gaylord P. Harnwell

President, University of Pennsylvania, Philadelphia, Pa.

James S. Hunt

Chairman of the Board, Coral Ridge Properties, Inc., Coral Springs, Fla.

Fred M. Kirby

Chairman of the Board, Alleghany Corporation, New York, N.Y.

Seymour H. Knox

Chairman of the Board, Marine Midland Trust Co. of Western New York, Buffalo, N.Y.

Franklin J. Lunding

Chairman of the Finance Committee, Jewel Companies, Inc., Chicago, Ill.

Richard K. Mellon

President and Governor, T. Mellon & Sons, Pittsburgh, Pa.

Robert S. Odell

President, Allied Properties, San Francisco, Calif.

Thomas L. Perkins

Counsel, Perkins, Daniels & McCormack, New York, N.Y.

William G. Rabe

Vice Chairman of the Board, Bank of Palm Beach & Trust Co., Palm Beach, Fla.

R. Stewart Rauch, Jr.

President, The Philadelphia Saving Fund Society, Philadelphia, Pa.

R. G. Rinecliffe

Chairman of the Board, Philadelphia Electric Company, Philadelphia, Pa.

Carlos J. Routh

President, Pittston Company, New York, N.Y.

John M. Seabrook

Chairman of the Board and President, International Utilities Corporation, Philadelphia, Pa.

James M. Symes

Chairman of the Board-Retired, The Pennsylvania Railroad Co., Philadelphia, Pa.

Daniel E. Taylor

Management of Personal Affairs, West Palm Beach, Fla.

SYSTEM OFFICERS

Stuart T. Saunders
Chairman of the Board

Alfred E. Perlman
President

David C. Bevan
Chairman of the Finance Committee

David E. Smucker
Executive Vice President

Henry W. Large
Executive Vice President

Robert W. Minor
Senior Vice President

Guy W. Knight
Senior Vice President

John E. Chubb
Vice President-Baltimore, Md.

Edward L. Claypole
Vice President-Transportation

Basil Cole
Vice President-Executive Department

Leo B. Fee
Vice President-Employee Relations

Robert G. Flannery
Vice President-Operation

A. Paul Funkhouser
Vice President-Coal and Ore Traffic

William R. Gerstnecker
Vice President-Corporate

Robert Haslett
Vice President-Investments

Samuel H. Hellenbrand
Vice President-Industrial Development & Real Estate

Ferdinand L. Kattau
Vice President-Management Planning & Development

William F. Kirk
Vice President-Mail, Express & Highway Services

William A. Lashley
Vice President-Public Relations & Advertising

James A. McDonald
Vice President-Executive Assistant to President

John G. Patten
Vice President-Freight Sales

John B. Prizer
Vice President and General Counsel

Malcolm P. Richards
Vice President-Purchases and Materials

James R. Sullivan
Vice President-Marketing

William H. Tucker
Vice President-New England

George C. Vaughan
Vice President-Engineering & Equipment

Theodore K. Warner, Jr.
Vice President-Accounting & Taxes

James J. Wright
Vice President-Research

Charles S. Hill
Comptroller

Edward A. Kaier
General Counsel

Bayard H. Roberts
Secretary

John H. Shaffer
Treasurer

REGIONAL OFFICERS

John H. Burdakin
Vice President & General Manager, Cleveland, Ohio

Howard C. Kohout
Vice President & General Manager, Chicago, Ill.

William B. Salter
Vice President & General Manager, Detroit, Mich.

George M. Smith
Vice President & General Manager, Pittsburgh, Pa.

Raymond C. Harrison
General Manager, Indianapolis, Ind.

Frank S. King
General Manager, Syracuse, N.Y.

Robert F. Lawson
General Manager, New York, N.Y.

John M. McGuigan
General Manager, Philadelphia, Pa.

Jeremy Taylor
General Manager, New Haven, Conn.

OFFICERS OF MAJOR SUBSIDIARIES

George S. Patterson
President, Buckeye Pipe Line Company, New York, N.Y.

Angus G. Wynne, Jr.
President, Great Southwest Corporation, Arlington, Texas

Brown L. Whatley
President, Arvida Corporation, Miami, Fla.

William C. Baker
President, Macco Corporation, Newport Beach, Calif.

Alphonse W. Salomone
President, Realty Hotels Incorporated, New York, N.Y.

Henry G. Allyn, Jr.
President, The Pittsburgh and Lake Erie Railroad Company, Pittsburgh, Pa.

Charles L. Towle
President and Chairman of the Board, Detroit, Toledo and Ironton Railroad Company, Dearborn, Mich.

John F. Nash
President and General Manager, Lehigh Valley Railroad Company, Bethlehem, Pa.

FINANCIAL REVIEW

Penn Central's 1968 consolidated earnings of \$90,273,000 increased 27.1 per cent over 1967 results of \$71,003,000 from ordinary operations.

Consolidated earnings per share in 1968 were \$3.91, compared with \$3.08 in 1967.

Gross income from all sources of \$2.125 billion represented an increase of 8.7 per cent from 1967 restated consolidated revenues of \$1.955 billion.

Dividends to Penn Central stockholders continued at the 1967 level. Regular quarterly dividends of 60¢ a share were maintained for a total of \$2.40 per share. This amounted to \$55.4 million in dividends to shareholders.

The Pennsylvania Company, an investment holding subsidiary, had consolidated net earnings of \$87.1 million in 1968, a rise of 42 per cent over earnings of \$61.6 million the previous year. The Pennsylvania Company paid \$24 million in dividends to Penn Central in 1968, after providing for debt service and dividends on preferred stock.

Earnings from Pennsylvania Company's diversified holdings continued to increase. Subsidiary non-railroad properties—Arvida Corporation in Florida, Great Southwest Corporation in Texas and Georgia, Macco Corporation in California and Buckeye Pipe Line Company in New York—contributed \$44.2 million to 1968 net income, a rise of 101 per cent over the \$21.9 million for 1967.

During the year, Pennsylvania Company sold 135,000 shares of Norfolk & Western Railway Company common stock at a profit of \$10.3 million. In addition, we disposed of 80,000 shares under an arrangement for the exchange of 800,000 shares of N&W common stock for 4½ per cent N&W convertible subordinated debentures with par value of \$104 million. A total of 320,000 shares has been exchanged to date, and all of the \$41.6 million in debentures received for the stock have been sold.

Strick Corporation, a manufacturer of trailers and containers, was sold in December for cash and securities. The firm was acquired by the former New York Central Railroad in 1966.

Penn Central's parent railroad company operations in 1968 showed a loss of \$2,773,000, compared with restated ordinary net income of \$11,467,000 in 1967. This was due in part to heavy non-recurring expenses encountered in the initial stages of merger. Other factors affecting railroad earnings were increases in the passenger deficit, in equipment rents and in fixed charges. In addition to higher costs, the railroad also suffered revenue losses from labor difficulties that affected the steel and coal industries.

Penn Central acquired an interest of some 23 per cent in all Madison Square Garden Corporation enterprises. In exchange for our 25 per cent interest in Madison Square Garden Center, Inc., and 55 per cent interest in the adjacent Two Pennsylvania Plaza office building, Penn Central received 1,168,664 shares of Madison Square Garden Corporation common stock and 100,000 of its preferred stock, which, after approval of Madison Square Garden Corporation's stockholders, will be exchangeable for 1,151,000 shares of common stock. We will continue to receive a basic air rights rental for the new recreation center and office building which opened in February, 1968.

**CONSOLIDATED
FINANCIAL
HIGHLIGHTS**

		1968	1967
From the Earnings Statement	Total income—all sources	\$2,125,042,000	\$1,955,241,000
	Depreciation, amortization and depletion	\$ 136,182,000	\$ 134,537,000
	Interest and debt expense	\$ 102,358,000	\$ 90,955,000
	Federal income taxes	\$ 2,168,000	\$ 124,000
	Earnings from ordinary operations	\$ 90,273,000	\$ 71,003,000
From the Balance Sheet	Total assets	\$6,524,376,000	\$6,253,838,000
	Long-term debt—due within one year	\$ 164,735,000	\$ 119,487,000
	—due after one year	\$2,121,762,000	\$1,992,627,000
	Shareholders' equity	\$2,983,543,000	\$2,903,009,000
	Number of shares outstanding	24,085,329	23,016,274
Per Share of Penn Central Stock	Earnings from ordinary operations	\$3.91	\$3.08
	Cash dividends	\$2.40	\$2.40
	All taxes	\$6.46	\$6.37

REAL ESTATE

Real estate continued to be a major factor in Penn Central's consolidated earnings in 1968. Total receipts from all Penn Central real estate operations and sales, both of railroad-related properties and subsidiary companies, amounted to \$273 million last year, compared with \$192 million in 1967.

During the year, we received about \$40 million from the sale of more than 800 non-operating properties to industrial shippers, governmental authorities and other purchasers.

Rental income from some 18,000 tenants and concessions throughout the system, including our Grand Central-Park Avenue holdings, rose to more than \$44 million. A multi-million dollar renovation program for our New York Hotel properties—the Barclay, Biltmore, Commodore and Roosevelt hotels—is being expedited.

Architectural plans for a 55-story office building to be built over Grand Central Terminal were submitted for approval to the Department of Buildings and the Landmark Preservation Commission of the City of New York.

Concession revenue development continued at Pennsylvania Station in New York. An agreement was made with Mid-City Associates under which they will create a modern shopping center adjacent to the Station by extending the concourse under their project for new stores, an office building and Bowery Savings Bank facilities to be constructed between 33rd and 34th Streets.

The Philadelphia Bicentennial Corporation proposes to use some portion of the 87 acres of air rights at Penn Central Station-30th Street and our North Philadelphia Station area as principal locations for an exposition in 1976 to celebrate our nation's 200th birth date. We are meeting with officers of the Corporation to determine whether such use of our property would be consistent with our concept of developing the 30th Street Station area into the transportation center for mid-city Philadelphia and to be certain that the property

Air rights over New York's rebuilt Pennsylvania Station are occupied by Two Pennsylvania Plaza and new Madison Square Garden Center.



becomes a model of urban development.

In Pittsburgh, 86 per cent of the land for the 148-acre Penn Central Park redevelopment project is assembled. The Park's first project, a \$50 million postal center, was announced by the Federal Government in May, 1968. Negotiations are under way with state and county officials for highway and rapid transit rights-of-way in the project area. We also are negotiating with city officials for location of Pittsburgh's new convention center and exhibition hall in the Park.

An agreement was signed with the U.S. Department of the Interior to convert Washington Union Station into a National Visitors Center within the next three years. This property was held by Washington Terminal Company, a 50 per cent-owned subsidiary. A new modern railroad passenger station will be built beneath a 4,000-car garage adjacent to the Center.

In Chicago, a third major office building is being constructed in the Gateway Center complex over Union Station, in which we have a 50 per cent interest. Two prime sites remain to be developed. All Penn Central passenger trains in Chicago were consolidated at Union Station to improve service. This paves the way for redeveloping LaSalle Street Station properties, which are 50 per cent Penn Central-owned.

In Cleveland and Detroit, marketing studies are being made of our major downtown properties to determine their maximum potential in redevelopment as multi-use urban complexes.

Industrial Development Our industrial development department assisted in the location or expansion of 567 manufacturing plants in 301 communities on Penn Central lines during 1968. These plants are expected to produce annual revenues for Penn Central

Two new buildings have risen in Chicago's Gateway Center and a third is under construction over Union Station.



of \$39.4 million from more than 171,000 carloads of freight.

In 1968, two major automobile companies started new plants on our line that are expected to generate new revenues to Penn Central of more than \$11 million annually. Ford Motor Company is building a 3-million-square-foot manufacturing, service, parts processing and redistribution center that will employ 1,000 persons 20 miles southwest of Detroit. Chrysler Corporation is constructing a 2.3-million-square-foot automobile assembly plant to employ 4,500 persons near New Stanton, Pa. Both plants are scheduled for completion in 1970.

A third automobile manufacturer, General Motors Corporation, recently announced plans for a new 650,000-square-foot truck assembly plant and the construction of a 1.7-million-square-foot stamping plant at their Lordstown, Ohio complex. Employment at this site will increase from 6,000 to 11,000, and the facilities should be in operation in 1970.

DIVERSIFIED SUBSIDIARIES

Buckeye Pipe Line Company Buckeye Pipe Line Company's consolidated earnings continued to grow in 1968, reaching a record \$13,812,000 before provision of \$590,000 for dividends on its preferred stock. This was an increase of 1.5 per cent over its earnings of \$13,604,000 in 1967, before provision of \$324,000 for preferred dividends. Buckeye's earnings have increased annually for the past 11 years.

This petroleum distribution network operates a 7,600-mile system of pipelines for transporting crude oil and refined products in nine states.

During 1968, Buckeye transported an average of 42 million gallons per day of crude oil and refined products, an increase of 10.8 per cent over 1967.

Over the past ten years, its gross investment in plant and equipment has increased by more than \$125 million and now totals \$209 million.

Buckeye's pipeline for jet fuel to New York's Kennedy International Airport carries approximately three million gallons per day and is expected to move more than seven million gallons per day by 1975.

Buckeye is also a major carrier of aviation fuel to Miami International Airport, Greater Pittsburgh Airport, and Air Force bases at Rome, N.Y., Homestead, Fla., and Tacoma, Wash. Kennedy and Miami airports ranked first and fifth, respectively, in fuel consumption by all U.S. airports in 1968. The company is studying the feasibility of connecting LaGuardia and Newark airports to its pipeline system.

Macco Corporation Macco Corporation's consolidated earnings of \$21,021,000 in 1968, compared with \$7,566,000 in 1967, an increase of 178 per cent. This wholly-owned real estate and land-development subsidiary has headquarters at Newport Beach, Calif. Macco has expanded its programs in residential housing and, in the second half of 1968, has broadened its operations to include commercial, industrial, apartment, and recreational developments. It is setting up its own companies and agencies for escrow, mortgage financing and insurance services.

In February, 1969, Penn Central announced its approval of the proposed merger of Macco into a wholly owned subsidiary of Great Southwest Corporation.

Great Southwest Corporation Net earnings for Great Southwest Corporation in 1968 reached an all-time high of \$9,654,000 after provision for Federal income taxes, an increase of 122 per cent over restated



Volume of crude and refined products carried by Buckeye's pipelines reached a new high in 1968.

New Macco homes provide panoramic view of Southern California's Santa Ana Mountains.



1967 net income of \$4,340,000. The company paid its first common dividend of \$1.00 per share to stockholders in 1968.

Great Southwest, which is 80 per cent owned by Penn Central, is developing industrial parks in Dallas-Fort Worth, Texas, and Atlanta, Georgia.

Attendance at its family amusement parks, "Six Flags Over Georgia" and "Six Flags Over Texas" passed 3,300,000 during the year. The Georgia facility was sold but will continue to be operated by Great Southwest.

Arvida Corporation Arvida Corporation's net earnings for 1968 were \$2,435,000 after Federal income taxes. This was more than double the 1967 net earnings of \$1,060,000.

Arvida Corporation, in which Penn Central has a 59 per cent interest, owns and operates properties in four of Florida's fastest-growing areas—Dade, Broward and Palm Beach counties on the East Coast and Sarasota on the West Coast.

Real estate sales volume in 1968 of \$15,244,000, up from \$11,786,000 in 1967, was the highest in eight years. Sales included condominium apartment units, home sites and sales of land to builders and investors on both the Atlantic and Gulf Coasts.

In 1968, Arvida began construction of three additional condominium apartment buildings, Sabal Shores and Lake House South apartments at Boca Raton and Longboat Key Towers near Sarasota, which is Arvida's first condominium development on Florida's West Coast. The latter is situated in Longboat Key Club, the company's residential-recreational community which includes an 18-hole championship golf course, a recently completed clubhouse and improved sites for apartments, hotels and motels. Sales prices of the 336 apartments in the three condominium buildings planned amount to more than \$20 million.

The Boca Raton Hotel and Club's program to increase its accommodations to

a 700-room capacity will be completed in 1969. Already in use are a convention hall with a capacity for 1,500 people and an exhibit hall. The new 26-story guest-room Tower, with 251 rooms, will be completed for the 1969 season. A rental garden-apartment complex adjacent to the Boca Raton golf course will be ready in April, 1969.

Arvida also is progressing with the development of Boca Raton West, a 1,400-acre resort-residential community adjacent to Florida's Turnpike. The first of its four 18-hole championship golf courses will be completed this summer. Several thousand condominium apartment units will be located in hamlets throughout the community.

Penn Central sponsored its first Share-owner Houseparties at the Boca Raton Hotel and Club in October and November. This successful program will be continued in 1969, with Houseparties scheduled for the Thanksgiving and Christmas holidays.

Our merger in February, 1968, made Penn Central the nation's largest transportation system. With inclusion of the New York, New Haven and Hartford Railroad on December 31, 1968, Penn Central operates almost 22,000 miles of railroad serving 16 states, two Canadian provinces and the District of Columbia. We carry nearly 300,000 passengers a day, and



Fronting on Lake Boca Raton, Arvida's Boca Inlet condominium apartment building (left) is convenient to the Atlantic Ocean and to the Hotel and Club's golf course (right).

we operate nearly 3,000 freight and passenger trains every 24 hours.

We made substantial progress toward consolidating the former Pennsylvania and New York Central railroads in our first year as a merged company, but we also encountered operating problems in this transitional period. These difficulties, combined with economic fluctuations, passenger losses and continuing increases in wage, fringe benefit and supply costs, had an adverse effect on railway operating income of Penn Central and its consolidated railroad subsidiaries. The railroad operating revenues for this group were \$1.6 billion in 1968, or about the same as in 1967.

In physically integrating our railroad system, we are ahead of schedule in consolidating yards and terminals, interchange and connecting points, and shops and maintenance facilities. Benefits in terms of savings, service and growth will accumulate as this work progresses. The heavy costs we experienced in starting merged operations, which were not chargeable to the reserves set up in 1967, will be non-recurring. For this reason, we expect to reap greater benefits of merger in 1969 than we did in 1968. Our goal is to achieve in five years the savings of at least \$80 million annually originally predicted after eight years.

Rail System Capital Improvements The Penn Central railroad system stayed in the forefront of the railroad industry in capital expenditures for equipment and facilities. In 1968, we invested \$334 million in this program, including \$119 million for leased equipment. In the past seven years, we have acquired more than \$1 billion, 736 million in new equipment and facilities. Most of this was for new freight cars and more powerful locomotives which augment the largest and most versatile equipment fleet in the country.

In 1968, we added 237 new high-powered diesel locomotives and 4,612 new freight cars to our fleet. We rehabilitated 3,256 freight cars and reduced the ratio of cars awaiting repair from 9.2 to 6.6 per cent.

Our program for implementing the railroad merger requires major improvements in many classification yards. On September 25, we opened our new \$29 million com-



puter-controlled freight classification yard near Albany, N.Y. This is the most modern electronic facility of its kind in the world. Computerization cuts almost in half the time previously required to move cars through yarding operations.

The new 630-acre yard can classify freight traffic at the rate of 3,000 cars per day. It will improve substantially Penn Central's service to shippers and receivers in New England and the East.

Penn Central now has seven computerized classification yards which are linked together by the largest and most advanced data collecting and processing system of any railroad.

Work has begun on a \$26 million classification yard at Columbus, Ohio. This will be supplemented by expansion of Sharon Yard near Cincinnati to expedite service over the entire southern portion of our railroad.

During the year, 23 terminals and 24 freight stations were consolidated. Road operations were combined at 29 points. We took out of service 336 miles of unneeded track, and we plan to abandon an additional 323 miles in 1969.

New Haven Inclusion A major addition to our railroad occurred at the close of the year when the New Haven Railroad became part of the system, as required by the Interstate Commerce Commission in its authorization of the Penn Central merger. On November 25, the Commission set the price of \$145.6 million for the New Haven, but New Haven bondholders are seeking to increase that amount in the courts.

High-powered diesels bring new speed and strength to Penn Central's 4,500-locomotive fleet.

The line is now the New Haven Region of the Penn Central, and we plan to make it a viable and productive part of our railroad system. We expect to do this by (1) successfully carrying out our long-range plans to restructure service, and (2) continuing to build upon the sound base of public support and understanding which has kept the New Haven alive in recent years.

A Vice President-New England, with headquarters in Boston, was appointed to coordinate New Haven operations and other Penn Central activities in New England. He also is President of New England Transportation Company, the highway transport subsidiary of the former New Haven. With the rapid development of piggyback and containerized shipments, these trucking routes will figure prominently in our restructuring program.

Operating headquarters for the New Haven Region is at New Haven, under the supervision of a General Manager. Many general staff functions have been absorbed into Penn Central's corporate offices.

We are seeking greater efficiency through consolidation of station and yard facilities and freight sales offices at common locations. Operating economies will be made by increased routing of freight traffic over our main Boston to Albany line, making maximum use of our new yard near Albany.

The task of rebuilding the New Haven is a difficult one. It will require the best of our resources in expertise and planning. We are providing the New Haven Region with the specialized skills and aggressive managerial direction necessary for modern railroad operations.

A revitalized New Haven operation, with integrated rail and trucking freight service and with passenger service receiving adequate public support, can make a great contribution to the economy of New England. We expect to achieve this goal with the cooperation of the governments and people of New England.

Sales and Marketing Both our freight sales and marketing departments were reorganized during the year to provide shippers with more efficient service.

The freight sales department was expanded to include nine geographical regions, each under the direction of an Assistant

The nation's largest rail network serves 16 states, 2 Canadian provinces and the District of Columbia.



Vice President to give high-level attention to sales and service requirements. We also have combined sales offices in 48 cities where both the former railroads had separate offices. In addition, a national accounts group was organized, with sales executives assigned to give full attention to the special transportation needs of major industries.

The marketing department was reorganized to include the functions of research, planning and pricing for the development of new transportation services and building profitable new business. The goal of the new organization is to gather diverse segments of the freight market into logical groupings for specialized management care. At present there are specialists for such key market segments as automobiles, agricultural products, metals, chemicals, consumer goods, construction materials and food products, and for specialized activities, such as Flexi-Flo for dry and liquid bulk freight, intermodal and international freight services.

International traffic in containers increased 37 per cent in through container traffic and 31 per cent in number of trailers from which goods are unloaded and placed in ships or containers for water movement. Penn Central handles this traffic through all major North and Middle Atlantic ports.

Our new trade name—TrailVan—replaces the former Pennsylvania Truc-Train and the former New York Central Flexi-Van. Traffic in trailers and vans increased 9 per cent in 1968 and accounted for more than 19 per cent of the total trailer and container traffic handled by U.S. railroads. Revenue from this service rose 18 per cent because of a higher proportion of long-haul traffic. This required the purchase of 500 new TrailVan units for use in the 26 TrailVan trains operated daily between major points on our system.

Terminal expansions were completed at Chicago, Buffalo and Jeffersonville, Ind. (to serve Louisville, Ky.), and started at Philadelphia and East St. Louis, Ill. Expansions for 1969 have been authorized at Worcester, Mass., Selkirk, Buffalo and Rochester, N.Y.

Our Flexi-Flo intermodal transportation

system for automatic transfer of dry and liquid bulk commodities in specialized rail cars had a 35 per cent growth in 1968. The major increases were in chemicals and food products. The North Bergen, N.J., Flexi-Flo terminal was expanded in 1968, and additional facilities at Hammond, Ind., Cleveland and Louisville will be constructed in 1969.

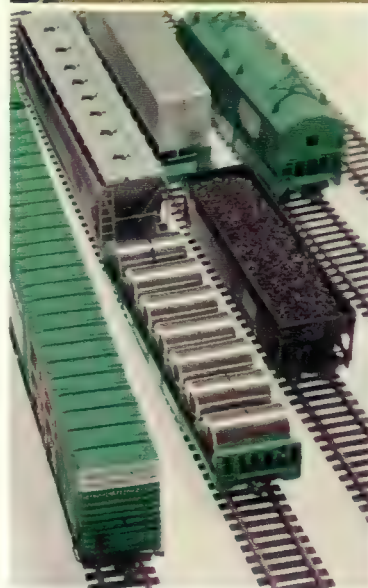
Penn Central developed the concept and is constructing 270 high-cube 60-foot box cars to minimize handling, reduce damage and increase the per-car revenue on household appliances. This fleet will be in full service in the spring of 1969.

Penn Central now transports from factories to dealer distribution points nearly one-fifth of the nation's automobile and truck production. In 1968, we handled more than 1.9 million units, an increase of 13 per cent over 1967. Several terminals are being expanded or built to meet increasing demands.

Coal and Ore Traffic Coal, the single most important source of traffic for Penn Central, contributed about \$195 million, or 12 per cent, of our total freight revenues for the year. The nearly 100 million tons of coal transported was about 3 per cent under 1967, principally because of strikes by miners in both January and October, 1968.

The unit train concept, upon which a large portion of our coal traffic is based, continues its evolutionary progress. An increasing number of unit trains are composed of cars owned by utility and other large-volume customers. Privately owned cars operated by Penn Central are now moving coal at an annual rate of more than 11 million tons. We expect to haul more than 20 million tons in non-railroad-owned equipment by 1975.

Unit trains and volume rates have stimulated development of extensive coal properties. This, along with additional rail facilities, has made possible long-term contracts between coal producers and consumers which generate a large amount of additional traffic.



Our tri-level rack cars (top) carry one-fifth of the nation's new cars and trucks, and a variety of specialized-type cars (bottom) play a key role in helping our customers meet their shipping needs.

THIS IS PENN CENTRAL

1

A montage of buildings on Penn Central's prestigious properties in New York's Grand Central-Park Avenue area.

2

New 86-foot high-cube box cars carry our growing auto parts business.

3

Sand, cement and limestone products are some of the dry bulk commodities transported in covered hopper cars.

4

"Six Flags Over Texas," a family entertainment park, is one of Great Southwest Corporation's many successful enterprises.

5

Madison Square Garden is a world-renowned sports and entertainment center.



6

Metal shipments are protected by covered cars tailored for this market.

7

Coal is Penn Central's largest single source of traffic.

8

A miniature building (foreground) depicts a 26-story tower which will add 237 rooms to Arvida's Boca Raton Hotel and Club.

9

Much of Penn Central's motive power is supplied by heavy-duty, over-the-road diesels.

10

Fifteen compact automobiles ride snugly on a tri-level rack car.

11

Covers come off when coiled sheet steel is ready to be unloaded at stamping plants.

12

Buckeye Pipe Line Company transports crude oil and refined products and serves aviation and automobile fuel markets.

13

Insulated box cars carry many items, ranging from canned goods to steel products.

14

TrailVan freight represents a rapidly growing part of Penn Central's traffic.

15

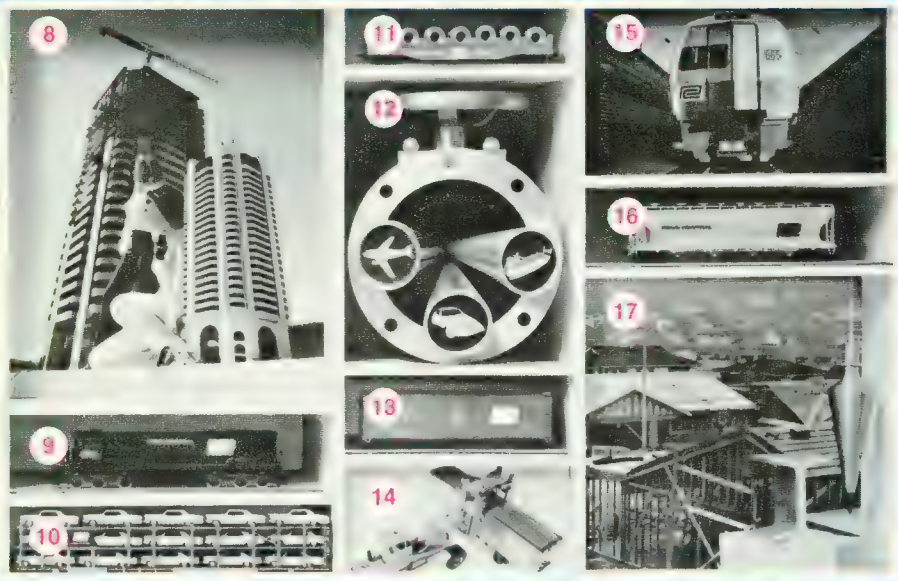
High-speed Metroliners are becoming a familiar sight in the New York-Washington Corridor.

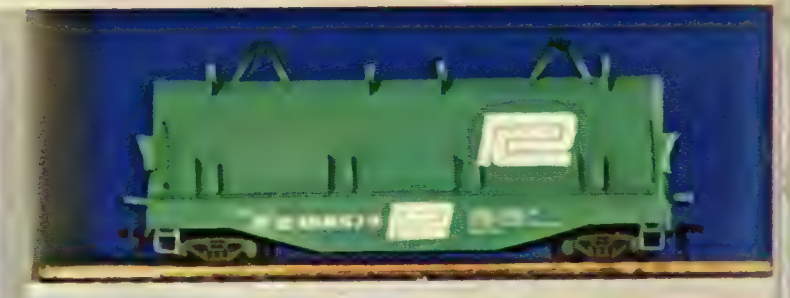
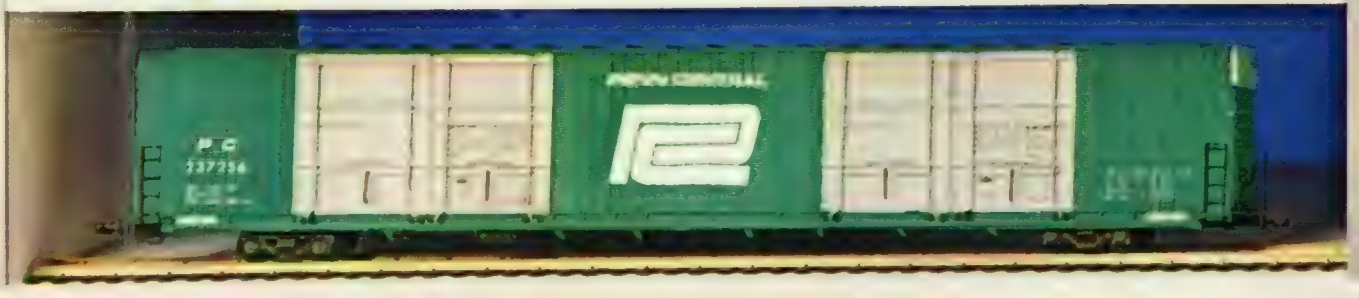
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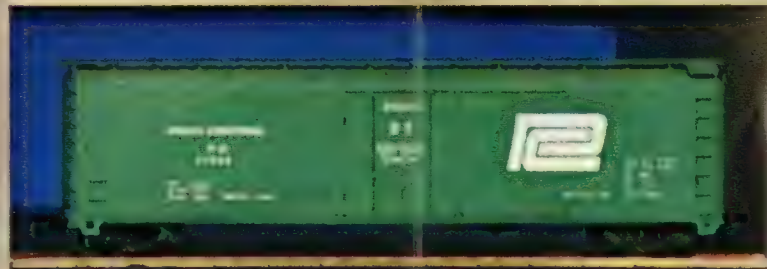
The chemical industry is a major user of Penn Central's center-flow cars.

17

Part of Macco's 130,000 acres in California is devoted to residential housing development.







The Waynesburg Southern Railroad, a 35-mile line costing \$20 million, began operations in July, 1968, as the outlet for more than a half-billion tons of coal reserves in southwestern Pennsylvania and northern West Virginia. Two mines are in production and a third will open following further extension of the line that will be built in 1969 at a cost of \$2.4 million.

Plans have been made to reach three additional mine areas by future short extensions of the Waynesburg Southern. When these are completed, total new coal production from the line will exceed 18 million tons annually.

Our new Ashtabula, Ohio, coal pier, which was built at a cost of \$14 million, went into service in May. This coal-handling facility includes a million-ton storage area permitting coal to be received throughout the year and a high-speed reclaim and loading system for Lake colliers during the navigation season.

Extension of our Captina branch in eastern Ohio was completed in 1968 at a cost of \$4.5 million. This will serve one major coal mine now under construction and three proposed mines in an area with 200 million tons of reserves. These mines, which will be under long-term contracts, will produce up to 10 million tons per year to the 1990's.

In southern Maryland, we have completed a line extension to carry unit trains to a coal-fired electric power generating station. Other track is being upgraded and built in Pennsylvania to insure unit train movement of coal from a 4-million-ton-per-year mine to a generating plant under construction in Montour County.

In 1968, Penn Central handled approximately 23 million tons of iron ore. The possibility of a steel industry strike caused high inventory build-ups during the first half of the year. Although the strike did

not materialize, domestic steel production was extraordinarily low in the last five months of the year and depressed Penn Central's iron ore traffic.

Mail Service Mail and express train service was modernized on October 1 to provide TrailVan service for long-haul bulk mail movements in which we have an inherent advantage over other carriers and which are not susceptible to diversion to highway freight. A special mail-handling facility for this service was constructed at South Kearny, N.J., and a similar terminal is being built in Chicago.

The Post Office Department continued to divert letter mail from rail to air and short-haul parcel post from rail to highway. These changes resulted in revenue losses of approximately \$14 million.

Freight Rate Increase On January 23, 1969, the Interstate Commerce Commission permitted, with modifications, the continuation of general freight rate increases authorized on an interim basis in 1968. This order became effective on January 30. The Commission granted an interim increase of 3 per cent in freight rates, effective June 24, 1968, and later authorized a further interim raise, effective November 28, 1968. For Penn Central, these totalled a 5.1 per cent overall increase, or 98 per cent of our original request. This is expected to produce an additional \$65 million in freight revenues in 1969.

Penn Central joined other lines in seeking higher rates because of increased wages, prices and taxes and the dangerously poor rate of return on investment in railroad properties in recent years. The Eastern lines' rate of return in 1968 is estimated at only 1.3 per cent, far below the rate of regulated utilities and most industrial companies. We cannot continue to absorb the additional operating costs forced upon us every year without a rate structure that reflects our capital investment, our cost characteristics, our competition and the demand for transportation. Average freight rate levels remain 8 per cent below what they were in 1958, despite recent increases.

The Interstate Commerce Commission

New 100-ton open-top hopper cars are utilized in our constantly growing unit coal train operations.



order granting Eastern railroads, including Penn Central, an increased share of revenues on North-South freight traffic, was found unlawful by a Federal Court at New Orleans and was remanded to the Commission by the Supreme Court. On appeal of the Eastern lines, the Supreme Court resolved in their favor four of seven disputed items of cost and ruled against them on the other three. The Commission will consider further findings on the latter three points.

Passenger Service Penn Central provides about one-third of the nation's rail passenger transportation. Passenger service continues to be a major financial drain. The downward trend in intercity passenger volume continued in 1968. Passenger revenues in 1968 dropped 9 per cent to \$105 million. This, combined with rising wage and fringe benefit costs, increased our passenger deficit in 1968 to slightly more than \$100 million, an increase of 18 per cent above the \$85 million of 1967. This loss would have been \$40 million more if we had not made a determined attempt to curb the basic causes of our passenger-service problems.

Penn Central is pioneering the development of new types of rail passenger service to meet the changing needs of the urbanized area served by our railroad system. We have formulated a constructive policy of (1) upgrading and improving passenger service that is essential, and (2) phasing out passenger trains no longer needed or used and for which there is little market potential. Our best hope for viable intercity service lies in trains operating over distances of 200-300 miles between major points in the Northeast. We also recognize the necessity for commuter operations in the Boston, New York-New Jersey and Philadelphia metropolitan areas.

Acceptance and growth of public assistance plans are vital for such passenger operations, which have become fundamentally a public service entitled to public support.

Penn Central alone cannot find a satisfactory solution for that problem, and we are seeking support and cooperation of local, state and Federal governmental agencies.



Metroliner Service Penn Central's high-speed Metroliner service between New York and Washington began on a limited basis on January 16, 1969, and has proved highly successful. We commenced service with one round trip each day. In February, 1969, we added a second six-car train, and we plan to start express service between New York and Washington in the spring. We expect to have the full fleet of 50 Metroliner cars in operation by the middle of 1969, and to start the two-year demonstration project sponsored jointly by Penn Central and the United States Department of Transportation.

Welded rail, heavier catenary wire, improved communications, station modernization and improved ticketing and reservation service are all part of our effort to make certain that the Metroliners will be first class in every respect. In addition, 3,000 employees are receiving extensive retraining for all phases of Metroliner operations.

The cars are the most advanced railroad passenger equipment yet developed. They surpass any other cars in service in speed, power, comfort and luxury.

The American Telephone & Telegraph Company has installed on the Metroliners a newly designed on-train telephone system that permits direct-dialing of calls from the trains.

High-speed Metroliner service between New York and Washington made an auspicious start early in 1969.



Delicious meals are served at seats in comfortable Metro-club cars.

As part of the two-year demonstration project, park-and-ride stations providing easy access to major suburban highways will be built in 1969 at Lanham, Maryland, and Woodbridge, N.J. Costs will be shared by Federal, state and local transportation authorities.

Penn Central, in cooperation with governmental bodies, is taking the leading role in developing high-speed rail transportation in the entire Northeast Corridor between Boston and Washington. Since inclusion of the New Haven, we have begun preparations for operating lightweight, turbine-powered Turboliner trains.

Commuter and Suburban Service During 1968, continuing contractual arrangements with city, regional and state governmental bodies for public assistance of commuter service in the Boston, New York-New Jersey and Philadelphia metropolitan areas helped to improve service and reduce deficits.

In northern New Jersey, 21 new cars of a proposed 80-car fleet have been placed in service. A \$600 million transportation bond issue approved by voters will enable New Jersey to advance its capital improvement program for passenger facilities. This will include new stations at Trenton and Metuchen. The New York & Long Branch Railroad, in which Penn Central has 50 per cent ownership, will be modernized by providing new multiple-unit cars, extending electrification and eliminating grade crossings.

The Southeastern Pennsylvania Transportation Authority's \$130-million capital improvement program of new passenger facilities and equipment for commuter lines, including Penn Central's, in the metropolitan Philadelphia area is expected to get under way in 1969.

Fares for commuter service between New York City and Westchester, Putnam and Dutchess County points were increased February 1, 1969, for the first time in more than 3 years to meet higher wages and payroll tax costs.

Popular snack-bar coaches offer Metroliner riders a wide variety of refreshments for the journey.

New standardized fares and simplified ticketing were introduced in December on Penn Central's six Philadelphia-area commuter lines.

Technical Research Our technical research center near Cleveland, which makes both fundamental and applied studies into new equipment and techniques, continued the largest research program of any railroad in the country.

During the year, the research department developed a speed sensor that will reduce the cost of these devices used in classification yards by as much as 90 per cent.

Patents were issued to Penn Central for TRACON, an electronic track inspection system providing statistical information on rail conditions.

Shock and vibration tests conducted with our Technical Research Car have led to new business, lower costs and improved efficiency, with assurance to customers of safer, damage-free transportation.

A new suspension system for freight cars, which uses rubber in place of conventional steel coil springs, is being road tested by the research department. This should lead to the first major change in a railroad truck assembly in 45 years.

One of our most important studies is aimed at upgrading locomotive and car wheel designs and materials to reduce thermal stress and fatigue. Part of this knowledge already has been applied to our new Metroliner cars.



Information Systems Development The most comprehensive computer network in the railroad industry coordinates operations and communications of Penn Central's rail system. Our computers carry more than 40 million characters of information daily between computer centers and 324 input locations.

Nine months after merger, all major information systems of both former railroads were unified for sales reporting, system analysis, transportation performance reporting, responsibility reporting, accounting, customer billing, car tracing, and data from bills of lading and shipping documents.

Additional programs are being implemented to assist all departments. These include the preparation of sales analysis and performance reports to determine yield on types of business by customer, commodity and routing.

Expanded transportation reports will be developed to provide statements of expected arrivals, train make-up, terminal loadings and yard information. These will supply information needed to further improve deliveries and increase car and locomotive utilization.

The Pittsburgh & Lake Erie Railroad Company

The Pittsburgh & Lake Erie Railroad had net earnings of \$10,892,000 in 1968, compared with \$9,854,000 in 1967, an increase of some 11 per cent. Penn Central ownership of the line rose from 81 to 93 per cent during the year as a result of our offering last spring to exchange Penn Central stock, bonds and cash for P&LE stock.

P&LE acquired 600 new freight cars and rebuilt an additional 700 in 1968. Its freight car fleet totals more than 24,350 cars, of which 97.8 per cent are in serviceable condition. Installation of a new comprehensive traffic control system on most of the P&LE main tracks will be completed in early 1969. The enlargement and modernization of Aliquippa Yard, which serves Jones & Laughlin's largest steel works, made substantial progress in 1968.

Detroit, Toledo & Ironton Railroad Company

Net earnings of the DT&I, a wholly-owned Penn Central subsidiary serving Michigan and Ohio, rose to \$2,905,000 in 1968 from \$998,000 the previous year, an increase of 191 per cent.

A major portion of the higher earnings is attributable to renovation of Flat Rock Yard, near Detroit, which went into full operation in the spring of 1968.

**THE EASTERN RAILROAD
MERGER SITUATION**

Consummation of the Penn Central merger on February 1, 1968, completed the major steps in the realignment of Eastern railroads into three viable, competitively balanced systems. These are the C&O-B&O, the Norfolk & Western and the Penn Central.

We continue to oppose the merger proposal of the Norfolk & Western and the Chesapeake & Ohio systems, which has been favorably recommended by an ICC examiner, because we believe it would be disruptive of the competitive balance in the East.

During 1968, the Norfolk & Western, in response to the Supreme Court decision of January 15, 1968, included the Erie-Lackawanna and the Delaware & Hudson in its system. These inclusions gave the Norfolk & Western entrance into a large new area including the Port of New York and Montreal. The Commission has extended to May 1, 1969, the deadline for Boston & Maine to be included in N&W under the Supreme Court order.

MANAGEMENT AND PERSONNEL

John T. Dorrance, Jr., Chairman of the Board of Campbell Soup Company, was elected a Director, effective March 1, 1968. James M. Symes was reelected a Director on June 26 to serve the unexpired term of Joseph H. Thompson, who died on April 30. Mr. Thompson, who was retired Chairman of the Hanna Mining Company and a highly respected member of the Board, was a Director for 12 years. Howard Butcher, III, who became a Director in February, 1962, resigned from the Board in September. Walter H. Annenberg who was elected a Director in May, 1967, resigned from the Board in March, 1969, to become United States Ambassador to Great Britain.

Paul D. Fox and J Benton Jones, Vice Presidents, retired, and Executive Vice President Walter R. Grant and Vice Presidents William S. Cook and John C. Kenefick resigned in 1968 to accept positions in other companies. Vice Presidents appointed were John H. Burdakin, Cleveland; Edward L. Claypole, Transportation; Howard C. Kohout, Chicago; James A. McDonald, Executive Assistant to the President; William B. Salter, Detroit; George M. Smith, Pittsburgh; and William H. Tucker, New England. John H. Shaffer was named Treasurer and Charles S. Hill became Comptroller.

During the year, major components of the merged Penn Central were reorganized. Refinement of lower-echelon organization is continuing to integrate the two predecessor companies and maximize use of our management and supervisory personnel.

College recruitment was centralized in 1968, and we expect some 200 young men and women graduating from colleges to become management trainees and participate in Penn Central's training program, which is one of the most comprehensive in the industry.

Some 800 supervisors completed the first phase of a supervisory development course in 1968. In addition, a new internal management development program is scheduled to commence this spring.

Improved training in increased efficiency and safety for new employees entering train and engine service positions and refresher training in the Company's operating rules and procedures for experienced employees is planned for 1969.

A new program of training in office-clerical and basic communications skills was instituted for surplus, unskilled employees in the New York-Newark and Philadelphia areas in 1968 to make them available for reassignment to productive work. This program will be extended to other areas in 1969.

Penn Central established new hiring standards and procedures in 1968 adapted to current conditions to insure equal opportunity in employment. Retraining programs resulted in the upgrading of a number of employees from minority groups.

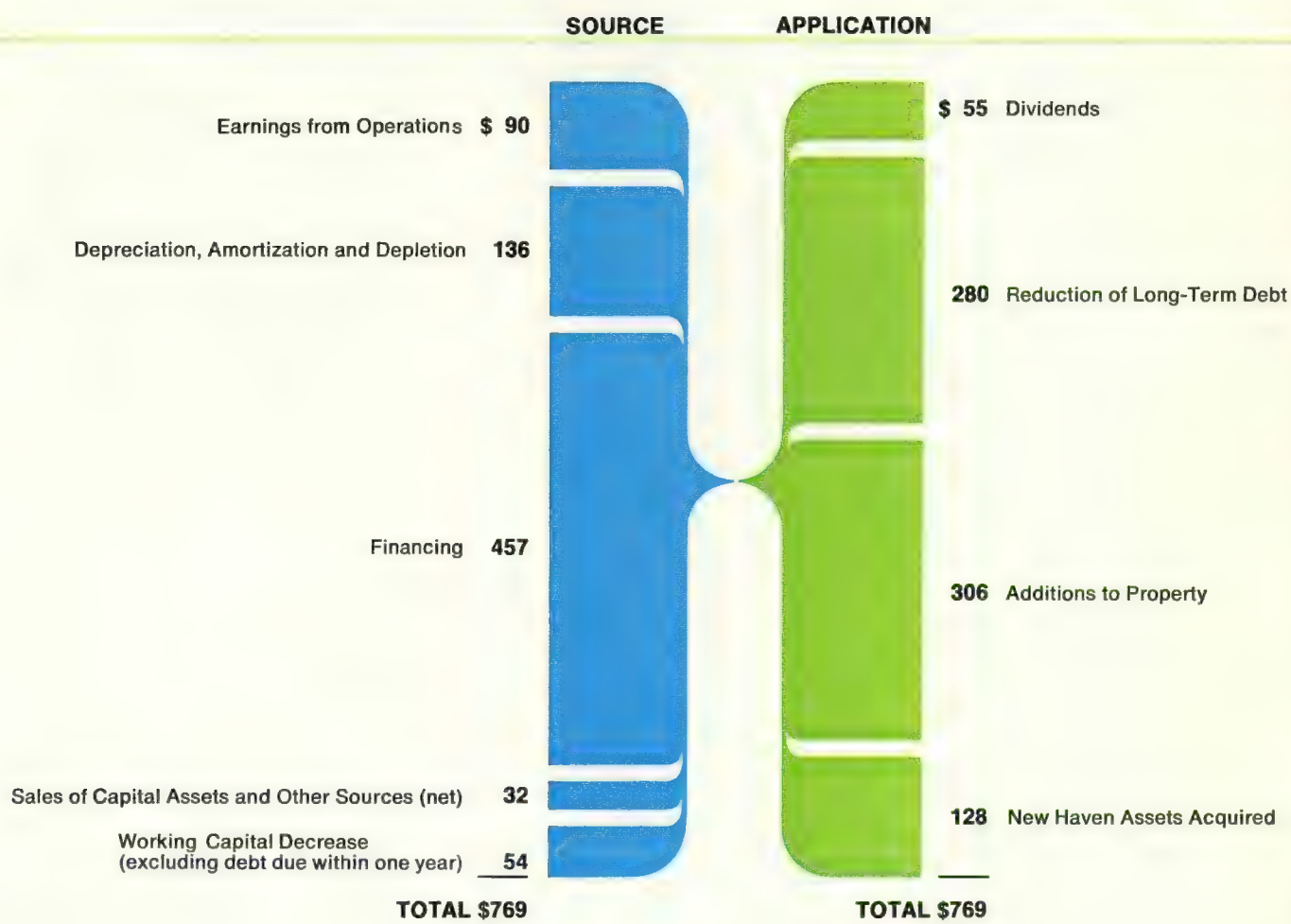
During 1968, Mr. Saunders was Metropolitan Chairman of the National Alliance of Businessmen in the Philadelphia-Camden area, and Penn Central participated in the national Job Opportunities in Business Sector (JOBS) program.

Penn Central railroad system employment averaged 102,200 last year, compared with 106,500 in 1967. Average compensation for 1968, including fringe benefits, was \$10,301, up from \$9,421 for the previous year.

CORPORATE RESTRUCTURING

The Board of Directors, at its February, 1969, meeting approved a plan of reorganization and merger for submission to the stockholders at the annual meeting. The effect of the proposed plan would be to transform the Penn Central stockholders' investment into stock of a new holding company on a share-for-share basis. The new holding company would own all of the stock of Penn Central. Proxies for approval of the plan will be solicited from the stockholders.

PENN CENTRAL CONSOLIDATED SOURCE & APPLICATION OF FUNDS/YEAR 1968 (in millions)



STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

		Year Ended December 31	1968	1967
Current Earnings				
<i>Income</i>	Transportation revenues		\$1,749,204,000	\$1,708,661,000
	Real estate sales and revenues		272,607,000	191,521,000
	Net gain on sales of investments		43,791,000	16,114,000
	Dividends, interest and other income		55,962,000	35,524,000
	Net income attributable to subsidiaries sold		3,478,000	3,421,000
	<i>Total Income</i>		2,125,042,000	1,955,241,000
<i>Costs and Expenses</i>	Wages, salaries and other employment costs		1,000,262,000	968,899,000
	Cost of properties sold, materials used, other charges		720,293,000	614,117,000
	Depreciation, amortization and depletion		136,182,000	134,537,000
	Taxes, other than payroll and Federal income		60,757,000	64,089,000
	Federal income taxes		2,168,000	124,000
	Interest and debt expense		102,358,000	90,955,000
	Minority interest in income of subsidiaries		12,749,000	11,517,000
	<i>Total Costs and Expenses</i>		2,034,769,000	1,884,238,000
<i>Earnings</i>	From ordinary operations		90,273,000	71,003,000
	Extraordinary charge for costs and losses incurred upon merger		—	(275,422,000)
<i>Net Earnings (Loss)</i>	For the year		90,273,000	(204,419,000)
Retained Earnings				
From prior years:				
	As previously reported		1,632,307,000	1,891,348,000
	Adjustments		7,253,000	7,683,000
	As adjusted		1,639,560,000	1,899,031,000
			1,729,833,000	1,694,612,000
	Cash dividends		55,400,000	55,052,000
	Balance at end of year		\$1,674,433,000	\$1,639,560,000
Per Share Data				
	Earnings from ordinary operations		\$3.91	\$ 3.08
	Extraordinary charge		—	\$ (11.96)
	Net earnings (loss)		\$3.91	\$ (8.88)
	Cash dividends		\$2.40	\$ 2.40

See accompanying notes to financial statements

CONSOLIDATED BALANCE SHEET

Assets		December 31	1968	1967
<i>Current Assets</i>	Cash and temporary cash investments		\$ 105,672,000	\$ 139,975,000
	Loans and notes receivable		15,232,000	16,066,000
	Accounts receivable and unbilled revenue		261,665,000	225,404,000
	Materials and supplies, at cost		90,924,000	106,304,000
	Other		17,141,000	14,584,000
	<i>Total Current Assets</i>		490,634,000	502,333,000
<i>Noncurrent Assets</i>	Investments		453,239,000	354,507,000
	New Haven—net assets acquired, at cost		127,544,000	—
	Real estate companies—properties held for development or resale, at cost		181,062,000	166,290,000
	Properties		6,936,656,000	6,994,031,000
	Less accumulated amortization, depreciation and losses upon merger		1,837,593,000	1,929,870,000
	<i>Total Properties—Net</i>		5,099,063,000	5,064,161,000
	Deferred charges and sundry assets		77,862,000	49,330,000
	Investment in consolidated subsidiaries in excess of net assets acquired		94,972,000	117,217,000
	<i>Total Assets</i>		\$6,524,376,000	\$6,253,838,000
Liabilities and Shareholders' Equity				
<i>Current Liabilities*</i>	Notes payable		\$ 77,326,000	\$ 47,990,000
	Accounts payable		34,975,000	27,868,000
	Accrued expenses		346,357,000	342,428,000
	Federal income taxes		592,000	2,083,000
	Other		28,031,000	24,359,000
	<i>Total current liabilities* (excluding debt due within one year)</i>		487,281,000	444,728,000
<i>Long-Term Debt</i>	Due within one year		164,735,000	119,487,000
	Due after one year		2,121,762,000	1,992,627,000
	<i>Total Long-Term Debt</i>		2,286,497,000	2,112,114,000
<i>Other</i>	Estimated liabilities incurred upon merger		119,346,000	143,164,000
	Casualty and other claims		84,837,000	75,042,000
	Deferred credits and other liabilities		149,398,000	154,938,000
	Minority interest in subsidiaries		256,025,000	265,470,000
	Excess of net assets acquired of consolidated subsidiaries over investment		157,449,000	155,373,000
	<i>Total Other</i>		767,055,000	793,987,000
<i>Shareholders' Equity</i>	Capital stock—\$10 par value, authorized 27,000,000 shares, issued 24,085,329 shares (1967—23,016,274)		240,853,000	230,163,000
	Additional paid-in capital		1,068,257,000	1,033,286,000
	Retained earnings		1,674,433,000	1,639,560,000
	<i>Total Shareholders' Equity</i>		2,983,543,000	2,903,009,000
<i>Total Liabilities and Shareholders' Equity</i>			\$6,524,376,000	\$6,253,838,000

See accompanying notes to financial statements

PENN CENTRAL COMPANY (Parent Company Only)

STATEMENT OF EARNINGS AND RETAINED EARNINGS

		<i>Year Ended December 31</i>	1968	1967
Current Earnings				
<i>Income</i>	Railway operating revenues		\$1,516,237,000	\$1,509,000,000
	Income from rental of properties, net		27,131,000	25,129,000
	Dividends and interest—consolidated subsidiaries		40,167,000	40,774,000
	Dividends and interest—other		15,451,000	4,743,000
	Net gain on sales of properties and investments		35,437,000	16,756,000
	Income under tax allocation agreements		19,038,000	7,442,000
	Miscellaneous, net		1,670,000	(3,743,000)
	<i>Total Income</i>		1,655,131,000	1,600,101,000
<i>Costs and Expenses</i>	Railway operating expenses, excluding depreciation		1,173,761,000	1,139,997,000
	Depreciation, including depreciation on leased lines		94,135,000	96,365,000
	Taxes, except Federal income		125,602,000	123,802,000
	Equipment and other rents—net		169,292,000	144,036,000
	Interest on debt		68,787,000	59,389,000
	Guaranteed dividends and interest—leased lines		26,327,000	25,045,000
	<i>Total Costs and Expenses</i>		1,657,904,000	1,588,634,000
<i>Earnings (Loss)</i>	From ordinary operations		(2,773,000)	11,467,000
	Extraordinary charge for costs and losses incurred upon merger		—	(275,422,000)
<i>Net Earnings (Loss)</i>	For the year		(2,773,000)	(263,955,000)
Retained Earnings	From prior years:			
	As previously reported		827,362,000	1,142,511,000
	Adjustments		(39,142,000)	(35,284,000)
	As adjusted		788,220,000	1,107,227,000
			785,447,000	843,272,000
	Cash dividends		55,400,000	55,052,000
	Balance at end of year		\$ 730,047,000	\$ 788,220,000
Per Share Data	Earnings from ordinary operations (loss)		\$ (.12)	\$.50
	Extraordinary charge		—	\$ (11.96)
	Net earnings (loss)		\$ (.12)	\$ (11.46)
	Cash dividends		\$2.40	\$ 2.40

See accompanying notes to financial statements

BALANCE SHEET

Assets		December 31	1968	1967
Current Assets	Cash and temporary cash investments		\$ 46,915,000	\$ 79,479,000
	Accounts receivable and unbilled revenue		240,211,000	201,814,000
	Material and supplies, etc., at cost		88,692,000	88,184,000
	Total Current Assets		375,818,000	369,477,000
Noncurrent Assets	Investments		1,208,441,000	1,144,531,000
	New Haven—net assets acquired, at cost		127,544,000	—
	Properties:			
	Road, structures, etc.		1,904,536,000	1,879,023,000
	Revenue equipment (rolling stock)		1,745,448,000	1,816,387,000
	Other		90,541,000	87,113,000
			3,740,525,000	3,782,523,000
	Less accumulated depreciation and losses upon merger		992,036,000	1,073,566,000
	Total Properties—Net		2,748,489,000	2,708,957,000
	Deferred charges and sundry assets		53,058,000	36,221,000
	Total Assets		\$4,513,350,000	\$4,259,186,000
Liabilities and Shareholders' Equity				
Current Liabilities*	Notes payable (to subsidiaries \$19,420,000; \$4,900,000, 1967)		\$ 87,420,000	\$ 36,913,000
	Accounts payable and accrued expenses		347,701,000	330,660,000
	Total Current Liabilities* (excluding debt due within one year)		435,121,000	367,573,000
Long-Term Debt	Due within one year		76,716,000	68,935,000
	Due after one year		1,407,610,000	1,226,164,000
	Total Long-Term Debt		1,484,326,000	1,295,099,000
Other	Estimated liabilities incurred upon merger		119,346,000	143,164,000
	Casualty and other claims		81,803,000	72,310,000
	Amounts payable to subsidiary companies		122,582,000	92,148,000
	Other		231,015,000	237,223,000
	Total Other		554,746,000	544,845,000
Shareholders' Equity	Capital stock—\$10 par value, authorized 27,000,000 shares, issued 24,085,329 shares (1967—23,016,274)		240,853,000	230,163,000
	Additional paid-in capital		1,068,257,000	1,033,286,000
	Retained earnings		730,047,000	788,220,000
	Total Shareholders' Equity		2,039,157,000	2,051,669,000
	Total Liabilities and Shareholders' Equity		\$4,513,350,000	\$4,259,186,000

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

MERGER

On February 1, 1968 The New York Central Railroad Company was merged into The Pennsylvania Railroad Company and the corporate name was changed to Penn Central Company on May 8, 1968. For accounting purposes the merger has been treated as a "pooling of interests" and consequently the financial statements, including the comparative figures for 1967, reflect the combined accounts of both companies. Certain figures for 1967 have been restated to conform with classifications adopted in 1968.

The merger resulted in duplication or obsolescence of certain railroad properties, equipment, materials and supplies, and in the requirement to rehire certain otherwise surplus furloughed employees. An extraordinary charge for these items, estimated at \$275,422,000, was provided as a reduction of earnings in 1967. During 1968 charges against the resulting valuation and other reserves aggregated \$39,684,000.

Consolidated retained earnings at December 31, 1967 have been restated from amounts previously reported to reflect a net retroactive increase of \$7,253,000. This net increase results from a credit of \$46,395,000 arising out of conformance of accounting policies of the two companies with respect to deferred income taxes (as more fully described in note on Federal income taxes) and a net charge of \$39,142,000 to correct retroactively certain account balances (principally accruals for injuries to persons, loss and damage freight claims and other items relating to prior years) as a result of the first audit of the merged company, and to effect uniform accounting policies and practices. Of the net adjustment a charge of \$430,000 is applicable to 1967 and earnings for that year have been restated accordingly. The balance of the adjustment is applicable to years prior to 1967 and has been credited to retained earnings as of January 1, 1967.

Penn Central Company (parent only) in reporting results of operations to the Interstate Commerce Commission reflects the aforementioned prior period net charge of \$39,142,000 as a reduction of net income in 1968 in accordance with accounting requirements of the Commission. Of the net adjustment, a charge of \$3,858,000 is applicable to 1967 and earnings for that year have been restated in this report accordingly.

As required by the Interstate Commerce Commission as a condition of the merger, substantially all of the properties and investments of The New York, New Haven and Hartford Railroad Company, subject to certain assumed liabilities, were acquired as of December 31, 1968 for \$33,600,000 in long-term mortgage bonds, 950,116 shares of common stock, cash and other consideration. Bondholders of the New Haven are litigating the terms of purchase ordered by the Commission and are seeking substantial increases in the purchase price. As it is not possible, without

further study, to make a final allocation of the purchase price to the various assets acquired, these net assets are reflected in the accompanying balance sheets in total. Operations of the New Haven properties will be included in the results of Penn Central Company commencing January 1, 1969. Those properties were operated in bankruptcy for a considerable number of years, incurring substantial losses, but those results are not deemed indicative of the future.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries, except the Wabash Railroad Company, the divestment of which is arranged as ordered by the Interstate Commerce Commission, and the Lehigh Valley Railroad Company, which the Commission has required to be offered for inclusion in another railroad system.

In 1968 the following subsidiaries and division were sold: Strick Corporation, Transport Pool, Inc., Pennsylvania Terminal Real Estate Company, Great Southwest Warehouses, Inc., and Six Flags Over Georgia (a division of Great Southwest Atlanta Corp.). In the statement of consolidated earnings and retained earnings, the net income attributable to their operations has been set forth separately.

INVESTMENTS

Investments, at cost or less, are as follows:

	Company	Consolidated
Majority-owned subsidiaries eliminated in consolidation	\$1,086,095,000	\$ —
Unconsolidated Subsidiaries:		
Lehigh Valley Railroad Co.:		
Stock—1,475,579 shares—97% owned	7,619,000	23,025,000
Bonds	2,440,000	4,139,000
Wabash Railroad Co.:		
Common stock—595,255 shs.—99% owned	—	3,292,000
Preferred stock—132,264 shs.—43% owned	—	4,982,000
	10,059,000	35,438,000
50%-owned companies (Principally railroad terminal companies):		
Stocks	13,992,000	21,671,000
Bonds, notes and advances .	15,695,000	22,786,000
	29,687,000	44,457,000
Affiliated Companies (Principally railroad connections):		
Stocks	9,556,000	15,271,000
Bonds, notes and advances .	14,093,000	35,365,000
	23,649,000	50,636,000
Other:		
Norfolk and Western Ry. Co. stock—1,407,732 shares..	—	36,940,000
Debentures receivable under exchange agreement	—	62,400,000
Mortgage notes and contracts—real estate sales	478,000	130,611,000
Miscellaneous	58,473,000	92,757,000
	58,951,000	322,708,000
Total Investments	\$1,208,441,000	\$ 453,239,000

Lehigh Valley

Based on unaudited financial statements, the equity in the net assets of Lehigh Valley at December 31, 1968 was \$73,232,000. Lehigh Valley reported a net loss for the year 1968 of \$5,969,000 and no dividends were paid.

Wabash

The Wabash properties have been leased to Norfolk and Western Railway Company since October 16, 1964 under a rental arrangement that provides for all related expenses, a fixed rental and additional rental equated to dividends declared on Norfolk and Western stock. An agreement also provides for exchange of all the Wabash common stock for 671,692 shares of Norfolk and Western common stock after six years from date of lease. The Norfolk and Western common shares to be acquired through this exchange are subject to the voting restriction and divestiture requirements of the Interstate Commerce Commission order authorizing the lease. Unaudited net earnings of Wabash for the year were \$10,204,000 and dividends received from the Wabash during 1968 were \$8,970,000.

50%-owned Companies

The net assets attributable to these companies, on the basis of unaudited reports, exceeded the consolidated investment therein by \$2,650,000 at December 31, 1968. Dividends received from such companies during the year were \$11,986,000 on a consolidated basis.

Norfolk and Western

On October 16, 1964 the Norfolk and Western-Nickel Plate-Wabash Unification Plan became effective pursuant to an order of the Interstate Commerce Commission. As ordered by the Commission, voting rights of the Norfolk and Western holdings are placed with trustees under voting agreements until the required divestiture of such holdings is completed by October 15, 1974.

Under an exchange agreement with Norfolk and Western, approved in April 1966 by the Interstate Commerce Commission, 800,000 of its common shares are to be delivered in stipulated installments to June 1974 to Norfolk and Western in exchange for \$104,000,000 principal amount of Norfolk and Western 4½% debentures, convertible into Norfolk and Western common stock by any holder other than Penn Central or its affiliates. The total consideration of \$104,000,000 received or receivable under the exchange agreement was recorded as an investment. The profit resulting under the exchange agreement is being recognized as income ratably over the term of the agreement. At December 31, 1968 there is \$49,518,000 of profit allocable to the remaining periods under the agreement.

A total of 320,000 shares has been exchanged to December 31, 1968 and the \$41,600,000 in debentures received for the stock have been sold.

At December 31, 1968 the market value of Norfolk and Western common stock holdings, including shares

receivable in exchange for Wabash common stock, was \$224,058,000, a substantial portion of which is subject to pledge or other restriction. Dividends and interest received from Norfolk and Western during 1968 aggregated \$12,783,000.

PROPERTIES

Properties presented on the consolidated balance sheet at December 31, 1968 reflect the following general classes:

	1968	1967
Transportation Properties:		
Road, structures, etc.	\$4,194,188,000	\$4,136,407,000
Revenue equipment (rolling stock)	<u>2,482,999,000</u>	<u>2,570,493,000</u>
	<u>6,677,187,000</u>	<u>6,706,900,000</u>
Other Properties:		
Real estate companies and hotels	119,523,000	116,786,000
Miscellaneous	<u>139,946,000</u>	<u>170,345,000</u>
	<u>259,469,000</u>	<u>287,131,000</u>
Total Properties	<u><u>\$6,936,656,000</u></u>	<u><u>\$6,994,031,000</u></u>

Transportation properties of the parent company and railroad subsidiaries are stated at valuations determined by the Interstate Commerce Commission in 1915 to 1919, with subsequent additions at cost. All other properties are stated at cost.

Transportation properties are depreciated in accordance with regulations issued and at rates approved by the Interstate Commerce Commission. As required, replacement accounting is used for certain properties, principally track structure and grading accounts. Under this method, amounts capitalized are not depreciated but replacements in kind are expensed; betterments and additions are capitalized; and retirements are charged to expense. Depreciation of other properties is provided on the straight-line method over the estimated useful lives of such assets.

FEDERAL INCOME TAXES

Income tax returns have been filed on consolidated bases and no income taxes are payable on such consolidated returns for 1968 or 1967. The Federal income taxes reported in the statement of consolidated earnings and retained earnings represent \$449,000 of current income taxes in 1968 and a credit of \$418,000 in 1967 applicable to earnings of subsidiary and lessor companies for which separate returns are required to be filed, and \$1,719,000 of deferred Federal income taxes in 1968 and \$542,000 in 1967 for non-regulated subsidiaries not includable in the consolidated income tax return. The Penn Central Company (parent only) statement of earnings reflects amounts receivable under tax allocation agreements entered into between the parent and certain subsidiaries included in the consolidated income tax returns. Under these agreements the subsidiaries pay to the parent the amount by which their tax liability is reduced or eliminated because of utilization in the consolidated return of operating losses or capital losses of other members of

the group, but in no event shall such payments exceed 95% of the tax which would have been due if they had filed separate returns.

The Company keeps its accounts in accordance with regulations of the Interstate Commerce Commission which prohibit the recording of deferred income taxes; however, generally accepted accounting principles require provision for such taxes. The deferred taxes arise from timing differences due principally to reporting for tax purposes of: (1) depreciation on accelerated methods, (2) property sales on the installment basis and (3) merger and casualty costs and losses on the cash basis. On a consolidated basis the deferred taxes, if recorded (after giving recognition to tax effect of capital gain and dividend income) would have been \$8,000,000 in 1968 and \$26,000,000 in 1967 applicable to income from ordinary operations and a reduction of deferred taxes of \$99,000,000 applicable to 1967 extraordinary charge, all after appropriate recognition of investment tax credits. The accumulated deferred taxes would have approximated \$75,000,000 at December 31, 1968. Investment credits on a consolidated basis of not less than \$90,000,000 are available for carry-forward to future years.

No deferred taxes are provided for companies included in the consolidated tax return and for other regulated subsidiaries in accordance with a policy adopted effective with the merger. Consistent with this policy deferred income taxes recorded in prior years by certain subsidiaries of the former New York Central Railroad and previously reflected in the consolidated financial statements have been eliminated.

The consolidated Federal income tax returns filed by the Pennsylvania Railroad affiliated group for the years prior to 1954 have been examined by the Internal Revenue Service and all tax liabilities have been settled. For the years 1954 through 1961 the Internal Revenue Service has proposed additional taxes, based primarily upon its assertion that certain deductions should be spread to later years to a degree inconsistent with treatment of similar items approved in prior years. The Company and its subsidiaries have filed initial protests against the proposed deficiencies; counsel is unable to determine the amount of liability, if any, which ultimately may accrue. The consolidated returns for years subsequent to 1961 are under examination by the field agents of the Internal Revenue Service; no deficiency for these years has been proposed.

The consolidated Federal income tax returns filed by the New York Central affiliated group for the years prior to 1956 have been examined by the Internal Revenue Service and all tax liabilities have been settled. The tax returns for subsequent years, all of which indicated no tax liability, are subject to examination by the Internal Revenue Service; however, the statute of limitations bars any deficiency assessment for the years prior to 1965, other than 1962.

LONG-TERM DEBT

At December 31, 1968 long-term debt, including debt due within one year, was as follows:

	Company	Consolidated
Bank loans 4% to 8½ % due to 1990	\$ 239,214,000	\$ 258,545,000
Mortgage bonds and notes 2½ % to 7¼ % due to 2862	633,254,000	1,113,403,000
Collateral trust bonds and notes 4% to 6½ % due to 1993	58,051,000	102,319,000
Railroad equipment obligations 2¾ % to 7½ % due to 1986	551,428,000	682,620,000
Real estate and other secured loans 2¼ % to 7½ % due to 1991	—	92,789,000
Various unsecured notes 4% to 8½ % due to 1970	—	15,462,000
Miscellaneous obligations	2,379,000	21,359,000
Total Long-Term Debt ..	<u>\$1,484,326,000</u>	<u>\$2,286,497,000</u>

Certain issues require annual installments of principal, in varying amounts, to the final maturity dates indicated.

Payments of principal for the next five years are:

	Amount	
Year	Company	Consolidated
1969	\$ 76,716,000	\$164,735,000
1970	149,703,000	228,727,000
1971	72,441,000	130,956,000
1972	71,208,000	105,681,000
1973	114,860,000	160,724,000

Investments with a cost of \$146,098,000 for the company (including investments in consolidated subsidiaries) and \$237,490,000 consolidated, and substantial portions of the properties, both company and consolidated, are pledged as security or otherwise restricted under various indentures and loan agreements.

CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL

The changes in capital accounts during 1968 are:

	Capital Stock (\$10 Par Value)	Additional Paid-in Capital
Balance at beginning of year ..	\$230,163,000	\$1,033,286,000
Issued:		
Acquisition of an additional 12% interest in the Pittsburgh and Lake Erie Railroad Company	628,000	4,446,000
Acquisition of New Haven as ordered by the Interstate Commerce Commission ..	9,501,000	29,572,000
Exercise of stock options ...	559,000	859,000
Miscellaneous issues	2,000	94,000
Balance at end of year	<u>\$240,853,000</u>	<u>\$1,068,257,000</u>

The stock option plans authorized by stockholders for officers and key employees resulted in the following transactions during the year:

	Number of Shares	
	Restricted Plans	Qualified Plan
Outstanding at beginning of year	140,014	4,000
Granted	—	346,500
Exercised	52,410	3,500
Lapsed	5,312	26,000
Outstanding at end of year	<u>82,292</u>	<u>321,000</u>
Available for future grants	<u>—</u>	<u>339,500</u>

Proceeds from issuance of stock under these plans are required to be used for capital improvements.

During 1968 options granted under the restricted plans were exercised at prices ranging from \$12.50 to \$24.50 per share for a total of \$1,198,000. Those under the qualified plan were exercised at a price of \$62.94 for a total of \$220,000. Options outstanding at December 31, 1968 are exercisable at prices ranging from \$12.50 to \$81.78 per share and generally are exercisable over a four-year period, commencing one year after date of grant. No material dilution in earnings per share would have occurred if all options outstanding at December 31, 1968 had been exercised.

LEASE OBLIGATIONS

Penn Central and its consolidated subsidiaries have additional obligations under long-term rail transportation equipment leases. The remaining rentals payable under these leases, representing primarily the amortization of lessors' costs of the equipment, amount to \$598,022,000 and \$479,360,000 for the company and consolidated, respectively. The rental for equipment acquired under these lease arrangements was \$52,915,000 and \$34,386,000 in 1968 for the company and consolidated, respectively. Under existing leases the rentals during the next five years will range from a high of \$60,450,000 and \$43,957,000 in 1969 to a low of \$50,007,000 and \$38,106,000 in 1973 for the company and consolidated, respectively. Rental obligations for miscellaneous real estate and sundry equipment are considered not material.

CONTINGENT LIABILITIES

The company has contingent liabilities (not included as liabilities in the balance sheet) aggregating \$462,145,000 as of December 31, 1968 by endorsement, as guarantor or by agreement, including agreements to make advances, in respect of the principal of obligations of

companies in which the company has an interest. \$197,182,000 of these contingent obligations have been entered into jointly, or jointly and severally, with other companies.

On a consolidated basis the contingent liabilities (not included as liabilities in the balance sheet) aggregate \$247,590,000 as of December 31, 1968, in respect of the principal of obligations issued by non-consolidated companies, principally terminal companies, in which the company and its subsidiaries have an interest. \$210,803,000 of these contingent obligations have been entered into jointly, or jointly and severally, with other companies.

In addition there are other contingent liabilities, but management believes they would have no material adverse effect upon the company's financial position.

PENSIONS

The company and certain of its consolidated subsidiaries have pension plans which provide retirement benefits for substantially all management employees together with certain personnel covered by labor union agreements. Consolidated pension expense for the year was \$1,874,000, of which \$1,150,000 was applicable to the parent company. It is the companies' policy with respect to the various plans to fund pension cost accrued and substantially all of the plans are fully funded at December 31, 1968.

SUBSEQUENT EVENT

On February 26, 1969 the Board of Directors approved for submission to the shareholders at the 1969 annual meeting a plan to create a holding company which would acquire all of the stock of the present company. Under the plan, shares of the holding company would be exchanged on a share-for-share basis for Penn Central shares.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

1500 WALNUT STREET

PHILADELPHIA, PA. 19102

~~The Board of Directors and Shareholders~~
Penn Central Company:

We have examined the balance sheets of Penn Central Company and of Penn Central Company and consolidated subsidiaries as of December 31, 1968 and the related statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for 1967, in-

cluded for comparative purposes, were not examined by independent public accountants.

In our opinion, except for the failure to provide deferred income taxes as explained in the note on Federal income taxes, such financial statements present fairly the financial positions of Penn Central Company and of Penn Central Company and consolidated subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, as restated (see merger note).

March 7, 1969

Peat, Marwick, Mitchell & Co.

